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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 000349

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SUBJECT: SEF CHAIRMAN HONG CHI-CHANG ON CROSS-STRAIT DEVELOPMENTS, UN REFERENDUM, AND PRESIDENTIAL ELECTION

Classified By: AIT Deputy Director Robert S. Wang,
Reasons: 1.4 (b/d)

¶1. (C) Summary: In a meeting with the Deputy Director on March 12, Strait Exchange Foundation (SEF) Chairman Hong Chi-chang expressed hope that Taipei and Beijing can make progress on further economic opening and charter flights after the presidential election, adding that he has been urging President Chen to take the initiative with Beijing. The two sides have already worked out the technical details for weekend charter flights, Hong continued, but Beijing is stalling to avoid giving "credit" to President Chen. On Taiwan politics, Hong said DPP candidate Frank Hsieh is trailing the KMT's Ma Ying-jeou and is likely to lose the March 22 presidential election, but by a smaller margin than polls are currently predicting. Hong also said that that the two UN referenda are unlikely to pass on March 22. If the referenda fail, President Chen is very unlikely to produce a "surprise" or crisis, because he would not want to undermine his political legacy of deepening Taiwan's democracy, nor would he be able to do so. End Summary.

Preparing for Next Stage of Cross-Straight Developments

¶2. (C) Straits Exchange Foundation (SEF) Chairman Hong Chi-chang told the Deputy Director on March 12 Hong that the SEF was opening an Emergency Response Center that same day to help Chinese tourists on Taiwan with any travel-related problems during their visits to the island. Hong said he hoped Beijing would reciprocate by sending a representative to center in Taipei to serve as a liaison and also establishing a counterpart organization on the mainland to cater to Taiwan tourists. Hong hopes the two sides can make progress on further economic opening and charter flights after the March 22 election and he has been urging President Chen to take the initiative before the end of his term. Hong asked if the U.S. would support progress in Chen's remaining months, to which the DDIR said we would welcome developments at any time that contribute to cross-Straight stability and prosperity. Taiwan and Beijing have already worked out the technical details for starting weekend charter flights, Hong noted, but Beijing has been unwilling to budge before the election to avoid giving President Chen any "credit."

¶13. (C) Hong said the recent spate of unilateral economic initiatives rolled out by the DPP administration, such as the amnesty for Taiwan companies that have illegally invested in the mainland and incentives to lure Taiwanese capital back to the island, are the result of talks between President Chen and Taiwan business leaders held a few months ago. Chen hopes to demonstrate that Taipei is flexible and willing to promote reasonable policies, which Hong said is the best way to gain support from the Taiwan business community. Had the DPP implemented such initiatives earlier, Hong emphasized, the party might not be facing an uphill battle for the presidency now.

Beijing Indicates Willingness to Work with Hsieh or Ma

¶14. (C) Hong believes Beijing may be more flexible in working with Taiwan's next president, pointing to PRC President Hu Jintao's recent remarks at the National People's Congress as evidence that Chinese leaders are prepared to talk to either a new DPP or KMT administration. Although the cross-Straits policies of Hsieh and Ma differ to some extent, the trend toward greater opening and economic liberalization between both sides is likely to continue apace no matter who is elected. Beijing probably will not modify its approach drastically if the KMT comes to power; Ma will face the same pressure on the economic and diplomatic fronts as the DPP. Any progress under the next Taiwan administration would therefore likely come on more limited economic issues rather than political questions, Hong added.

UN Referendum Passage Unlikely

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¶15. (C) According to Hong, the chance of either the DPP or KMT-backed UN referenda passing on March 22 remains low. Hong explained that Taiwan's high participation threshold for referenda (50 percent of all eligible voters must participate), the relatively lukewarm election climate, and the expected KMT boycott of the balloting hinder the referenda's prospects. (Note: After this meeting took place, the KMT announced it would boycott the DPP-backed referendum, support its own referendum, but understand and respect those who decided to boycott both referenda. End Note.) If either referenda were to pass, Hong observed, the new president-elect, whether KMT or DPP, would be unlikely to push a controversial interpretation of the initiative. Beijing's reaction to a successful referendum, however, would be crucial since strong opposition or any attempt to use force could push Taiwan's current or future leader to take a more strident stance. Nevertheless, Hong said the likelihood that events would spiral out of control remains only a remote possibility.

Hsieh's Election Troubles

¶16. (C) Turning to Taiwan domestic politics, Hong said Hsieh will have a difficult time catching Ma with only 10 days to go. Hong said internal DPP polls show Ma still enjoys a significant lead, though concerns about the "one-China common market" have helped Hsieh raise his numbers. If Ma fails to neutralize what is really a "fake" issue, letting the "one China market" fester for the remainder of the election, Hsieh could pull closer. Nevertheless, Hsieh still has a way to go before he can turn the corner.

¶17. (C) Hong criticized the Hsieh campaign for having a poor election strategy, a weak message, and for being disorganized. The Hsieh camp has failed to present a compelling reason to elect another DPP administration, while the opposition KMT has generated a sense of crisis that is driving its supporters. Hsieh, moreover, is not a dynamic campaigner and has generally limited his activities to one

evening rally or event per day. The Hsieh camp also has done a poor job of organizing and mobilizing grassroots activists and leaders, which dampens overall support among the party base.

¶8. (C) Hong also criticized Hsieh for doing a poor job of highlighting Taiwan identity-related issues in the election. Identification with Taiwan is a by-product of the island's democratization and not the sole preserve of the DPP, Hong explained, adding that the issue has more resonance with voters if the target is China, rather than the KMT. If used effectively in an election, it can set the agenda and put the KMT on the defensive. For example, Hong assessed that Hsieh had lost a valuable opportunity by not highlighting China's attitude toward Taiwan during negotiations over the Olympic torch route. Beijing's last minute insistence that no ROC flags could be displayed as the torch passed through Taiwan was a complete "humiliation," argued Hong, especially after Taipei had compromised on the route and nomenclature. If used effectively, the Olympic issue would have reinforced the UN referendum, Hong maintained, and this would have been more effective than attacking Ma's past U.S. green card.

"Surprise"...President Chen Going out with Dignity?

¶9. (C) Asked about the potential for President Chen to produce a "surprise" should Hsieh lose or the UN referenda fail, Hong said Chen has neither the intention nor the capability to seriously destabilize cross-Strait relations. A declaration of emergency or independence, for example, would require ratification by the Legislative Yuan, which is now firmly controlled by the KMT. Even launching a defensive referendum would get nowhere unless a serious provocation by Beijing gave Chen justification for calling such a vote. Should Hsieh lose and the UN referenda fail, President Chen is unlikely to produce a "surprise" or crisis, Hong emphasized, explaining that Chen would not want to undermine his political legacy and commitment to deepening Taiwan

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democracy in the final months of office.

Comment

¶10. (C) A long-time advocate of more liberal cross-Strait economic policies within the DPP, Hong must see some irony in the recent last-minute initiatives launched by the Chen administration for election purposes. These measures may be too little and too late to have a substantial effect on the views of the Taiwan business community on the eve of the March 22 election. Nonetheless, Hong appears genuinely eager to expand cross-Strait economic and social ties and believes that this is still possible after the election. Should the DPP remain in power, Hong thinks that he is likely to stay at SEF until the end of his tenure through 2008.
YOUNG